ETF Report Q4 2020 Commentary

Against a backdrop of highly volatile markets due to the COVID-19 pandemic, the Canadian ETF industry set new records in 2020. Canadian-listed ETFs gradually grew over the remaining nine months after the March 2020 flash crash, recording $257.3 billion in net assets at the close of the year, or 25.6% year-over-year growth.

The perfect storm of positive market effect, record sales, and an influx of new investors fuelled the growth of ETFs in 2020, as ETFs generated $42.2 billion in net creations throughout the 12-month period, rendering it the best-selling year by any standard. The first quarter brought in the lion's share of those sales, garnering $15.8 billion. The month of February saw $9.1 billion in net creations, eclipsing the previous record of $5.6 billion in monthly sales flow in December 2019.

Equity mandates again seized the spotlight as the best-selling asset class of the year, recording $24.5 billion in net creations and accounting for 58.1% of all ETF sales. Canadian and U.S. equity funds were the two highest-grossing sub-asset classes, at $6.7 billion and $5.4 billion in net creations, respectively. Sector equities rounded out the top three classes, with $4.2 billion in net creations over the year, as technology and energy sectors witnessed heightened demand during the market recovery.

Despite outselling equity funds in Q3, fixed income sales slightly declined throughout 2020 compared to the previous year, garnering $11.7 billion in total net creations over the 12-month period. Investment-grade bond ETFs were responsible for the bulk of the asset class' net creations, attracting $10.0 billion throughout the year. High-yield bond funds emerged from the net redemptions territory of 2019, drawing an additional $1.7 billion in ETF sales.

BMO Asset Management was the best-selling ETF sponsor for the ninth consecutive year, recording $9.2 billion in net creations over the 12-month period, albeit falling short of the $9.9 billion in net creations generated by the sponsor in 2019. BlackRock Canada remained the second best-selling sponsor, recording $6.8 billion in net creations, while Horizons ETFs ascended to the third place, attracting $5.9 billion of net creations over 2020 and welcoming four of its funds among the 10 best-selling ETFs of the year.

As the barriers of entry in the indexing space remain high due to product proliferation and low pricing, active ETF strategies have become the most viable option for sponsors seeking to expand their ETF shelves: All of the five entrants to the ETF market exclusively offered active mandates. Together, Russell Investments Canada, Caldwell, Norrep, Guardian Capital LP, and Ninepoint Partners accounted for 15 of the 87 active ETF launches in 2020. Conversely, 51 passive funds were introduced by existing sponsors, bringing the year's total launches to 138 funds, the highest number on record. From an asset class standpoint, the majority of newly-launched ETFs were the equity mandates, with 86 products rolled out throughout the course of the year, whereas fixed income and balanced funds welcomed in 35 and 15 funds, respectively, over the same period.

Notable launches in 2020 included 12 funds that were part of ETF portfolio solutions: namely, the Vanguard Asset Allocation ETF Portfolios, the iShares ESG Asset Allocation Portfolios, the TD One-Click ETF Portfolios and the AGFiQ Global ETF Portfolios. In June, Wealthsimple introduced two of their own socially responsible ETFs, with Mackenzie acting as portfolio manager. This was the company's second stab at catering to the ESG market after launching a socially responsible portfolio in 2016 with a contentious ESG threshold for selecting constituents. Product development connected to the ESG theme accelerated in 2020 globally and across an expansive shelf of product options beyond ETFs.

Other significant trends in ETF product development include alternatives; 13 such funds launched during the year, with CI First Asset leading the fray. Horizons ETFs, Guardian Capital LP, Picton Mahoney Asset Management and Accelerate Financial were among other sponsors to roll out alternative solutions during the course of 2020. Fund manufacturers were also busy incorporating ESG practices into their products, as 21 new responsible investment options were presented to the investors.

Canadian investors collectively held $281.2 billion in Canadian- and U.S.-listed ETF assets at the end of Q3 2020. While retail ETF assets expanded slightly quarter over quarter to $164.6 billion, the combined share of Canadian- and U.S.-listed retail investors continued to drop, as it has since the beginning of 2019. At the close of September 2020, it accounted for 58.5% of the market — a 448 basis point (bps) drop from nine months prior.

Assets in full-service brokerage (FSB) remained flat quarter over quarter, at $89.6 billion at the close of Q3 2020, albeit still accounted for 54.5% of total retail ETF ownership. After a minor contraction over the previous quarter, fee-based accounts expanded their share of channel assets by $2.1 billion to reach $66.0 billion, or 73.7% of the channel's ETF assets at the close of September. The second-largest channel, the online/discount brokerage (ODB), grew its share of retail ETF ownership by 124 bps, composing 35.9% of the assets, or $59.2 billion. Meanwhile, the robo-advice channel rounded out the three largest retail ETF conduits, recording $7.6 billion in assets, or 4.6% of retail ETF ownership.

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